

**CHARTERED FINANCE & LEASING LTD.
(CFL)**

(“NBFC/ B-13.02480”)

VERSION HISTORY

Particular	Details
Policy Name	Expected Credit Loss Policy
Version	V1
Latest Approval/Review Date	20-May-2025
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Approver	Board of Directors of Chartered Finance & Leasing Ltd

SUMMARY OF POLICY

Version	Approval	Version Description	Regulatory Reference	Remarks
I	20th May, 2025	2025	RBI Regulation	Policy adopted by the Board

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EXPECTED CREDIT LOSS POLICY

1. INTRODUCTION

Chartered Finance & Leasing Limited (hereinafter referred as “the Company”) being a registered Non-Banking Financial Company as Investment and Credit Company (ICC). The company is primarily engaged in lending and investment activities.

The Reserve Bank of India (RBI) vide its circular no RBI/2019-20/170 DOR (NBFC).CC.PD.No.109/22.10.106/2019-20 dated March 13, 2020 on “Implementation of Indian Accounting Standards by Non-Banking Financial Companies and Asset Reconstruction Companies” has directed to have a Board approved policy for computation of Expected Credit Loss (ECL) that addresses policies, procedures and controls for assessing and measuring credit risk on all lending exposures, commensurate with the size, complexity and risk profile specific to the NBFC. The parameters and assumptions considered in the ECL estimation as well as their sensitivity to the ECL output need to be documented.

In view of the above, Policy on Expected Credit Loss (“the Policy”) has been prepared prescribing the guiding principles for assessing and measuring credit risk on all lending exposures, commensurate with the size, complexity and risk profile specific to the Company.

The Company previously followed the RBI’s prudential norms for provisioning on loans granted. However, the Company is now developing a comprehensive Expected Credit Loss (ECL) model in accordance with Ind AS 109. This document now serves to formally define the Company’s ECL policy and methodology and to provide continued guidance for its application going forward. This policy covers the guiding principles for computation of ECL.

2. SCOPE OF POLICY

The Policy covers the following:

- a. Approach of the Company for computation of ECL
- b. Segmentation of loan portfolio
- c. Mechanics of the computation of ECL – including the assumptions of deriving various factors for computing ECL
- d. Changes in the assumptions by the management
- e. Prudential floor for provisioning against assets as per the applicable regulatory framework.

3. APPROVAL AUTHORITY

This Policy is guided by the RBI Circular and Ind AS 109 Financial Instruments. The policy document has been approved by the Board of Directors of the Company on April 7, 2025

4. APPROACH

Ind AS 109 does not prescribe any specific method to estimate ECL.

The Company shall measure the amount of ECL on a financial instrument in a way that reflects an unbiased and probability-weighted amount. The Company considers its historical loss experience and adjusts the same for current observable data. The key inputs into the measurement of ECL are the probability of default, loss given default and exposure at default. These parameters shall be derived from the Company's internally developed statistical models and historical data. In addition, the Company shall use reasonable and supportable information on future economic conditions including macroeconomic factors. Since incorporating forward looking information increases the judgment as to how the changes in the macroeconomic factor will affect ECL, the methodology and assumptions are reviewed regularly.

5. SEGMENTATION

The impairment approach under Ind AS 109 requires financial entities to segment their portfolio based on their risk profiles. Accordingly, entire loan portfolio shall be segmented into different segments/ products on the basis of homogeneous borrowers since their risk profiles are similar.

Above segmentation may change from time-to-time on the basis of changes in business model and associated risk, portfolio performance, change in risk profile etc.

6. EXPOSURE AT DEFAULT AND ITS STAGING

The Exposure at Default (EAD) represents the carrying amount of the financial assets, net of any security deposits or collateral that can be set off against the assets in the event of default. The Company determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding to multiple scenarios. Ind AS 109 requires financial instruments to be categorized into 3 different stages on the basis of degree of risk. The staging prescribed by the standard is as follows:

ECL is recognized on loans based on the general approach wherein lifetime ECL is to be recognized if there is a significant increase in credit risk since origination. For assets which have not undergone a significant increase, a 12-month ECL shall be recognized.

Assets are classified under three stages based on the evaluation of the following criteria:

- Stage 1 – Loans with low credit risk and where there is no significant increase in credit risk i.e. accounts with no default.
- Stage 2 – Loans with significant increase in credit risk i.e. accounts overdue for 0 to 90 days.
- Stage 3 – Credit impaired loans i.e. accounts with more than 90 days default.

Assessment is made for each asset at borrowers' level to understand if the credit risk is significantly increased or the asset is credit impaired ECL is provided based on the categorization of each of the outstanding loan considering performance during the year and future outlook.

7. PROBABILITY OF DEFAULT

The Probability of Default (PD) is the likelihood that the borrower will default in future.

Analysis of historical data regarding days past due (DPD) or delinquency of loans is the primary input into the determination of the term structure of PD for exposures. The Company shall look at performance and default information about its credit risk exposures analyzed by type of product or borrower as well as by DPD.

In instances where the Company does not have sufficient historical default and recovery data—particularly during periods when all assets were classified as performing—the Probability of Default may be estimated based on relevant and comparable market data. In such cases, industry-level default statistics and benchmarks from entities operating in the same sector may be used as proxies to ensure a reasonable and supportable estimation of credit risk.

8. FORWARD LOOKING INFORMATION

In its ECL models, the Company relies on a broad range of forward-looking information as macro-economic inputs. As required by Ind AS 109, Macro Economic (ME) overlays are required to be factored in ECL Models and accordingly, Company shall use relevant ME variable. Overtime, new ME variable may emerge to have a better correlation and may replace the previous ME being used.

9. LOSS GIVEN DEFAULT

Loss given default (LGD) is defined as the expected amount of the credit that is lost by a financial institution when a borrower default. The Company uses collection details on previously defaulted cases for calculating the estimated recoveries and consequently the LGD.

In cases where the Company does not have historical default and recovery data—particularly during periods when all financial assets were performing or where historical data may not be an appropriate basis—LGD assessment is subject to management's judgement, considering the creditworthiness and specific circumstances of the counterparty to whom the amount is outstanding. Additionally, for specific exposures, such as Stage 3 financial assets, a higher LGD may be considered relative to Stage 1 assets, reflecting the increased credit risk and reduced recovery prospects.

10. ECL COMPUTATION

ECL shall be computed at each reporting period under different scenarios with weightages decided by management from time-to-time.

Expected Credit Loss = Exposure at default x Probability of default x Loss given default

The parameters such as PD and LGD shall be refreshed periodically.

11. MANAGEMENT OVERLAY

Any overrides to components like PD, LGD, and EAD shall be documented with rationale and such overrides are subject to approval of Audit Committee. Also, the criteria for reversal of the overrides shall be aligned at the time of application of the overrides.

Further, the Management, if it so desires, may provide for higher losses than that arrived at based on the manner discussed above.

12. CHANGES IN THE ECL MODEL, PARAMETERS AND KEY ASSUMPTIONS

The parameters and assumptions considered as well as their sensitivity to the ECL output shall be documented. No change in the parameters, assumptions and other aspects of ECL model shall be made merely for the purposes of profit smoothening. The rationale and justification for any change in the ECL model shall be documented and approved by the Audit Committee. Similarly, any adjustments to the model output (i.e. a management overlay) should be approved by the Audit Committee of the Board (ACB) and its rationale and basis should be clearly documented.

13. PRUDENTIAL FLOOR

Company shall hold impairment allowances as required by Ind AS.

In parallel Company shall also maintain the asset classification and compute provisions as per extant prudential norms on Income Recognition, Asset Classification and Provisioning (IRACP) including borrower/beneficiary wise classification, provisioning for standard as well as restructured assets, NPA ageing, etc.

If the impairment allowance under Ind AS 109 is lower than the provisioning required under IRACP (including standard asset provisioning), Company shall appropriate the difference from its net profit or loss after tax. Endeavor shall be made to make adequate provision through impairment allowance itself. Further, this comparison shall be done at Legal Entity level.

The difference appropriated against net profit or loss after tax shall be transferred to “Impairment Reserve”, the withdrawal from which shall be possible only with the permission of the RBI, or in such manner as may be prescribed by the RBI from time to time.

14. DISCLOSURES

Appropriate disclosures as required in regulatory guidelines, from time to time, shall be made by the Company by way of notes to financial statement.